PRESS RELEASE

Federal Deposit Insurance Corporation

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Banks and Thrifts Report Record Earnings in Second Quarter
Strong demand for commercial and consumer loans boosts net interest income

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation (FDIC) reported net income of $38.1 billion for the second quarter of 2006, surpassing the previous quarterly earnings record of $36.9 billion set in the first quarter. This is the fifth time in the last six quarters that industry earnings have set a new record. FDIC officials attributed the new quarterly record to strong commercial and consumer loan demand that sparked an increase in net interest income, which outweighed the effects of rising interest rates and narrower spreads between short- and long-term interest rates. The industry's second-quarter profits represent a 3.2 percent increase over first-quarter performance and a 10.9 percent improvement over the same period in 2005.

Preliminary financial results for the second quarter are contained in the FDIC's latest *Quarterly Banking Profile*, which was released today. Among the major findings:

- **Loan growth continued to support rising revenues.** Strength in both commercial and consumer loan demand remained high, with total loans growing by 2.8 percent during the quarter. The industry's loan portfolio has been growing at a double-digit annual rate for the past three years, as rising demand for commercial loans has compensated for slowing consumer loan demand. The high volume of lending helped offset the negative effect of narrower net interest margins and made it possible for institutions to continue to increase their net interest income.

- **Institutions relied more on interest-sensitive funding sources.** Growth in retail deposits, which are cheaper and less sensitive to changes in interest rates than alternative sources of funding, did not keep up with the rapid pace of asset growth. To fund new assets, institutions turned to larger-denomination time deposits and nondeposit borrowings for an increasing share of their funding.

- **Asset quality remained good, but troubled commercial loans registered a slight increase.** Indicators of asset quality -- loan losses and delinquent loans -- remained very favorable by historical standards. Net charge-offs of loans and leases in the second quarter were $682 million (10.9 percent) below the level of a year earlier, as charge-offs of credit-card loans declined by $764 million (19.0 percent). Noncurrent loans and leases, which are 90 days or more past due or in nonaccrual status, rose by $514 million (1.1 percent) during the quarter, and were up by $3.3 billion (7.2 percent) during the past 12 months.

The end of the second quarter also marked a period of more than two years without the failure of an FDIC-insured institution. The last failure occurred on June 25, 2004. This is the longest interval without an insured institution failure in the FDIC's 73-year history.

The FDIC also said that the deposit insurance fund reserve ratio remained unchanged in the second quarter as insured deposit growth slowed. The ratio of the FDIC's Deposit Insurance Fund (DIF) to its estimated insured deposits was 1.23 percent at the end of June, the same as at the end of March. Prior to the second quarter, the reserve ratio of the Fund (and the combined ratio of its predecessors, the Bank Insurance Fund and the Savings Association Insurance Fund) had declined for six consecutive quarters as insured deposits registered strong growth. During the second quarter, estimated insured deposits increased by only $37.4 billion (0.9 percent).

The complete report is available at http://www2.fdic.gov/qbp/index.asp on the FDIC Web site.